



Nkomazi Local Municipality

**Annual Financial Statements
for the year ended 30 June 2014**

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Providing municipal services
Mayoral committee	
Executive Mayor	Khoza T S
Speaker	Macie K J
Chief whip	Mabuza S
Members of mayoral committee	Mhlanga M W (Budget and Treasury) Mkhatshwa S L (Planning and Development) Magagula P P (Corporate Services) Ngomane E M (Community and Social Services) Shongwe M R (Infrastructure)
Councillors	Cloete A Dikiza G K Dlamini-Zitha S P Hlahla B A Langa N P Letsoalo S M Luphoko P C Lusibane F N Mabuza V E Madolo S P Mahlalela S S Mahlalela E J Makamo L S Makhubela B S Makhubela J J Makhubela L S Malaza B B Mambane D S Maphanga D A Masilela D L Masilela D J Masilela T E Masuku S H Mathenjwa N D Mathonsi S S Mazibuko B C Mkhabela L A Mkhumbane M R Mkhumbane T C Mnisi D P Mnisi P M Mogiba G N Motha C M Msithini S Z Mthombo T M Myeni N M Mziako P M Ndlala S J

Nkomazi Local Municipality

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General Information

	Ngomane B D Ngomane G B Ngomane L P Nkambule G J Nkentshane M E Nkosi J M Ntuli S J Preddy M M S Shabangu V T Shongwe M D Shongwe W H Shungube Z I Sibiya S C Silombo S R Thumbathi B P Vuma L T Zitha M A Zitha-Dlamini S
Grading of local authority	5
Accounting Officer	Ngwenya M D
Chief Finance Officer (CFO)	Khoza B T
Business address	Civic Centre 9 Park Street Malelane 1320
Postal address	Private Bag X101 Malelane 1320
Contact no	013 790 0245
Bankers	ABSA Bank Nelspruit
Auditors	The Auditor-General
Demarcation code	MP324

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
IFRS	International Financial Reporting Standards
ME's	Municipal Entities

Nkomazi Local Municipality

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and will be given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements will be examined by the municipality's external auditors and their report is expected before 30 November 2014.

The accounting officer is responsible for the preparation of these Annual Financial Statements, which are set out on the attached pages, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in the notes of the attached annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Cooperative Governance and Traditional Affairs determination in accordance with this Act. The annual financial statements set out on pages 6 to 70, which have been prepared on the going concern basis, were approved by the accounting officer. 31 August 2014.

MD Ngwenya

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2014.

1. Review of activities

Main business and operations

The municipality is a medium capacity municipality, engaged in providing municipal services. It delivers basic services such as water, electricity and refuse removal services to the Malelane, Komaitpoort, Marloth Park and Hectorspruit region. The municipality provides free water and refuse removal services to rural areas within the local sphere of Nkomazi.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net surplus of the municipality was R 53,609,067 (2013: surplus R 97,540,694).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. Subsequent events

The accounting officer is not aware of any material matter or circumstance arising since the end of the financial year.

4. Accounting policies

The annual financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board.

5. Accounting Officer

The accounting officer of the municipality at the date of this report is mentioned on page 2.

6. Auditors

The Auditor-General will continue in office for the next financial period.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Position as at 30 June 2014

Figures in Rand	Note(s)	2014	2013 Restated*
Assets			
Current Assets			
Inventories	6	897,444	1,021,344
Operating lease asset	17	1,946	30,394
Receivables from exchange transactions	7	170,868	159,726
Receivables from non-exchange transactions	8	49,473,690	33,425,365
VAT receivable	9	31,487,145	11,330,194
Consumer debtors-exchange transactions	10	18,566,998	15,937,040
Deposits made	18	3,505,209	3,301,928
Cash and cash equivalents	11	8,398,800	7,614,476
		112,502,100	72,820,467
Non-Current Assets			
Investment property	4	34,936,799	34,936,799
Property, plant and equipment	5	1,472,166,532	1,368,917,054
Intangible assets	12	271,167	244,728
Heritage assets	13	2,812,819	2,812,819
Operating lease asset	17	100,172	15,892
		1,510,287,489	1,406,927,292
Non-current assets held for sale and assets of disposal groups	19	2,130,081	2,060,099
Total Assets		1,624,919,670	1,481,807,858
Liabilities			
Current Liabilities			
Other financial liabilities	15	430,989	364,575
Finance lease obligation	16	-	666,998
Operating lease liability	17	107,049	39,223
Trade and other payables from exchange transactions	20	207,185,666	122,707,251
Unspent conditional grants and receipts	21	16,914,629	16,371,877
Provisions	22	1,422,997	455,953
Trade payables from non-exchange transactions	24	113,596	113,596
Bank overdraft	11	4,433,376	-
		230,608,302	140,719,473
Non-Current Liabilities			
Other financial liabilities	15	2,673,785	3,116,575
Operating lease liability	17	48,421	-
		2,722,206	3,116,575
Total Liabilities		233,330,508	143,836,048
Net Assets		1,391,589,162	1,337,971,810
Net Assets			
Accumulated surplus		1,391,589,162	1,337,971,810

* See Note 2 & 49

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Financial Performance

Figures in Rand	Note(s)	2014	2013 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	28	76,852,213	69,204,926
Rental of facilities and equipment	29	3,609,558	3,488,682
Interest earned - debtors		5,220,039	2,694,724
Recoveries	33	1,035,463	427,395
Other income	34	6,339,103	31,678,188
Interest earned - external	30	1,794,381	3,047,658
Total revenue from exchange transactions		94,850,757	110,541,573
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	27	64,117,325	59,400,809
Transfer revenue			
Government grants & subsidies	31	483,860,819	418,193,781
Agency services	26	7,847,619	7,708,858
Public contributions and donations	32	3,752,226	452,381
Fines	26	2,690,234	357,027
Licences and permits	26	19,295	29,554
Total revenue from non-exchange transactions		562,287,518	486,142,410
Total revenue	26	657,138,275	596,683,983
Expenditure			
Employee related cost	35	(249,906,268)	(200,146,458)
Remuneration of councillors	36	(19,136,513)	(18,233,198)
Depreciation and amortisation	37	(49,189,967)	(50,053,977)
Impairment loss	38	(388,356)	(3,315,781)
Finance costs	39	(1,822,486)	(1,182,374)
Debt impairment	40	(4,800,584)	(4,872,254)
Bulk purchases	42	(58,159,340)	(54,728,082)
Contracted services	41	(23,266,444)	(23,582,084)
General expenses	43	(195,657,603)	(143,029,081)
Total expenditure		(602,327,561)	(499,143,289)
Operating surplus		54,810,714	97,540,694
Loss on disposal of game assets		(1,201,647)	-
Surplus for the year		53,609,067	97,540,694

* See Note 2 & 49

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,216,454,212	1,216,454,212
Adjustments		
Change in accounting policy	(34,563)	(34,563)
Correction of errors	52,646,971	52,646,971
Balance at 01 July 2012 as restated*	1,269,066,620	1,269,066,620
Changes in net assets		
Clearing of old bank reconciliation items	(25,961,702)	(25,961,702)
	(25,961,702)	(25,961,702)
Surplus for the year	97,540,694	97,540,694
Sub total	71,578,992	71,578,992
Total changes	71,578,992	71,578,992
Opening balance as previously reported	1,340,645,612	1,340,645,612
Adjustments		
Change in accounting policy	1,033,563	1,033,563
Correction of errors	(3,707,365)	(3,707,365)
Restated* Balance at 01 July 2013 as restated*	1,337,971,810	1,337,971,810
Changes in net assets		
Clearing of old bank recon items	8,285	8,285
Net income (losses) recognised directly in net assets	8,285	8,285
Surplus for the year	53,609,067	53,609,067
Total recognised income and expenses for the year	53,617,352	53,617,352
Total changes	53,617,352	53,617,352
Balance at 30 June 2014	1,391,589,162	1,391,589,162
Note(s)		

* See Note 2 & 49

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Cash Flow Statement

Figures in Rand	Note(s)	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Delivery of services and other revenue		149,104,789	157,438,713
Grants		483,860,820	417,758,781
Interest income		1,794,381	3,047,658
		<u>634,759,990</u>	<u>578,245,152</u>
Payments			
Employee and councillors related cost		(269,042,781)	(217,418,746)
Suppliers		(212,171,254)	(219,927,101)
Finance costs		(1,791,337)	(979,322)
		<u>(483,005,372)</u>	<u>(438,325,169)</u>
Net cash flows from operating activities	45	<u>151,754,618</u>	<u>139,919,983</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(154,019,518)	(131,825,709)
Purchase of other intangible assets	12	(106,348)	(119,200)
Deposits made		(203,281)	-
Net cash flows from investing activities		<u>(154,329,147)</u>	<u>(131,944,909)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(376,376)	(556,912)
Movement in trade payables from non-exchange transactions		-	113,596
Finance lease payments		(698,147)	(1,398,672)
Net cash flows from financing activities		<u>(1,074,523)</u>	<u>(1,841,988)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(3,649,052)</u>	<u>6,133,086</u>
Cash and cash equivalents at the beginning of the year		7,614,476	1,481,390
Cash and cash equivalents at the end of the year	11	<u>3,965,424</u>	<u>7,614,476</u>

* See Note 2 & 49

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Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	78,182,281	3,416,042	81,598,323	76,852,213	(4,746,110)	
Rental of facilities and equipment	2,659,337	1,120,756	3,780,093	3,609,558	(170,535)	
Interest earned - debtors	1,650,000	2,865,282	4,515,282	5,220,039	704,757	57.1
Recoveries	-	-	-	1,035,463	1,035,463	57.2
Other income	5,192,474	1,567,535	6,760,009	6,339,103	(420,906)	
Interest earned - external	2,200,000	-	2,200,000	1,794,381	(405,619)	57.3
Total revenue from exchange transactions	89,884,092	8,969,615	98,853,707	94,850,757	(4,002,950)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	56,328,220	-	56,328,220	64,117,325	7,789,105	
Government grants & subsidies	524,099,000	16,371,877	540,470,877	483,860,819	(56,610,058)	57.4
Transfer revenue						
Agency services	25,965,865	(14,946,338)	11,019,527	7,847,619	(3,171,908)	57.5
Public contributions and donations	-	-	-	3,752,226	3,752,226	57.6
Fines	550,000	-	550,000	2,690,234	2,140,234	57.7
Licences and permits	24,200	-	24,200	19,295	(4,905)	57.8
Total revenue from non-exchange transactions	606,967,285	1,425,539	608,392,824	562,287,518	(46,105,306)	
Total revenue	696,851,377	10,395,154	707,246,531	657,138,275	(50,108,256)	
Expenditure						
Personnel	(210,920,334)	(10,128,231)	(221,048,565)	(249,906,268)	(28,857,703)	57.13
Remuneration of councillors	(18,098,404)	(369,316)	(18,467,720)	(19,136,513)	(668,793)	
Depreciation and amortisation	(65,673,167)	8,186,087	(57,487,080)	(49,189,967)	8,297,113	57.9
Impairment loss/ Reversal of impairments	(3,494,833)	-	(3,494,833)	(388,356)	3,106,477	57.10
Finance costs	(731,015)	(150,000)	(881,015)	(1,822,486)	(941,471)	57.11
Debt impairment	(16,141,260)	-	(16,141,260)	(4,800,584)	11,340,676	57.12
Bulk purchases	(66,232,960)	-	(66,232,960)	(58,159,340)	8,073,620	
Contracted Services	(17,504,672)	(3,000,000)	(20,504,672)	(23,266,444)	(2,761,772)	
General Expenses	(153,971,830)	118,724	(153,853,106)	(195,657,603)	(41,804,497)	57.14
Total expenditure	(552,768,475)	(5,342,736)	(558,111,211)	(602,327,561)	(44,216,350)	
Operating surplus	144,082,902	5,052,418	149,135,320	54,810,714	(94,324,606)	
Loss on disposal of game assets.	-	-	-	(1,201,647)	(1,201,647)	57.15
Surplus / (deficit) before taxation	144,082,902	5,052,418	149,135,320	53,609,067	(95,526,253)	

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	144,082,902	5,052,418	149,135,320	53,609,067	(95,526,253)	

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Property rates	56,328,220	-	56,328,220	-		56,328,220	64,117,325		7,789,105	114 %	114 %
Service charges	78,182,281	3,416,042	81,598,323	-		81,598,323	76,852,213		(4,746,110)	94 %	98 %
Investment revenue	2,200,000	-	2,200,000	-		2,200,000	1,794,381		(405,619)	82 %	82 %
Transfers recognised - operational	311,163,683	6,624,421	317,788,104	-		317,788,104	314,427,663		(3,360,441)	99 %	101 %
Other own revenue	36,041,876	(9,392,765)	26,649,111	-		26,649,111	26,761,311		112,200	100 %	74 %
Total revenue (excluding capital transfers and contributions)	483,916,060	647,698	484,563,758	-		484,563,758	483,952,893		(610,865)	100 %	100 %
Employee costs	(210,920,334)	(10,128,231)	(221,048,565)	-	-	(221,048,565)	(249,906,268)	-	(28,857,703)	113 %	118 %
Remuneration of councillors	(18,098,404)	(369,316)	(18,467,720)	-	-	(18,467,720)	(19,136,513)	-	(668,793)	104 %	106 %
Debt impairment	-	-	-			-	(4,800,584)	-	(4,800,584)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(69,168,000)	8,186,087	(60,981,913)			(60,981,913)	(49,578,323)	-	11,403,590	81 %	72 %
Finance charges	(731,015)	(150,000)	(881,015)	-	-	(881,015)	(1,822,486)	-	(941,471)	207 %	249 %
Materials and bulk purchases	(67,552,081)	19,502	(67,532,579)	-	-	(67,532,579)	(58,159,340)	-	9,373,239	86 %	86 %
Transfers and grants	(200,000)	-	(200,000)	-	-	(200,000)	-	-	200,000	- %	- %
Other expenditure	(186,098,641)	(2,900,778)	(188,999,419)	-	-	(188,999,419)	(220,125,694)	-	(31,126,275)	116 %	118 %
Total expenditure	(552,768,475)	(5,342,736)	(558,111,211)	-	-	(558,111,211)	(603,529,208)	-	(45,417,997)	108 %	109 %
Surplus/(Deficit)	(68,852,415)	(4,695,038)	(73,547,453)	-		(73,547,453)	(119,576,315)		(46,028,862)	163 %	174 %

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Annual Financial Statements for the year ended 30 June 2014

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	212,935,317	9,747,456	222,682,773	-		222,682,773	169,433,156		(53,249,617)	76 %	80 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	3,752,226		3,752,226	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	144,082,902	5,052,418	149,135,320	-		149,135,320	53,609,067		(95,526,253)	36 %	37 %
Surplus/(Deficit) for the year	144,082,902	5,052,418	149,135,320	-		149,135,320	53,609,067		(95,526,253)	36 %	37 %
Capital expenditure and funds sources											
Total capital expenditure	229,757,317	11,133,955	240,891,272	-		240,891,272	36,045,491		(204,845,781)	15 %	16 %
Sources of capital funds											
Transfers recognised - capital	212,935,317	9,747,456	222,682,773	-		222,682,773	169,207,979		(53,474,794)	76 %	79 %
Internally generated funds	16,822,000	1,386,500	18,208,500	-		18,208,500	-		(18,208,500)	- %	- %
Total sources of capital funds	229,757,317	11,133,956	240,891,273	-		240,891,273	169,207,979		(71,683,294)	70 %	74 %

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 2 Changes in accounting policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

In determining the allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 23.

Effective interest rate

The municipality used an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows. Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of financial instruments, revenue and expenses at initial recognition. The adjustments requires a degree of estimation around the discount rates and periods used.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives and residual values

The municipality re-assesses the useful lives and residual values of property, plant and equipment on an annual basis. In re-assessing the useful lives and residual values of property, plant and equipment - management considers the conditions and use of individual assets, to determine the remaining period over which the asset can and will be used.

1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Nkomazi Local Municipality

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Accounting Policies

1.2 Investment property (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value on a straight line method over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
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Nkomazi Local Municipality

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Accounting Policies

1.3 Property, plant and equipment (continued)

Land	Indefinite
Buildings	10 - 30 years
Plant and machinery	5 - 20 years
Furniture and fixtures	5 - 20 years
Motor vehicles	7 - 20 years
IT equipment	5 - 10 years
Infrastructure	
• Roads and paving	10 - 100 years
• Electricity	5 - 80 years
• Water	10 - 100 years
• Sewerage	15 - 60 years
• Solid waste disposal	15 - 55 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Game

The municipality recognises game asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Game assets is initially measured at cost

Where game asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition or game count.

Subsequent to initial recognition game assets are measured at cost less accumulated impairment losses.

The municipality derecognises game asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of game asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the game asset. Such difference is recognised in surplus or deficit when the game asset is derecognised.

1.4 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Accounting Policies

1.4 Intangible assets (continued)

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	2 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Where the municipality holds a heritage asset, but on initial recognition, it does not meet the recognition criteria because it cannot be reliably measured, information on such a heritage asset will be disclosed in note of Heritage assets.

Nkomazi Local Municipality

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Accounting Policies

1.5 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.6 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

Accounting Policies

1.6 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
 - receive cash or another financial asset from another entity; or
 - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Nkomazi Local Municipality

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Accounting Policies

1.6 Financial instruments (continued)

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

Class	Category
Other financial liabilities	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Bank overdrafts	Financial liability measured at amortised cost
Trade and other payables from non-exchange transactions	Financial liability measured at amortised cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

Accounting Policies

1.6 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Gains and losses

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.6 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
 - derecognise the asset; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.6 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the municipality assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

When the straight-lined lease payments recognised as an expense is less than the contractual payments, the difference is accounted as operating lease asset. When the straight-lined lease payments recognised as an expense is more than the contractual payments, the difference is accounted as operating lease liability. Any contingent rents are expensed in the period in which they are incurred.

1.8 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Nkomazi Local Municipality

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Accounting Policies

1.8 Inventories (continued)

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of water inventories is assigned using the weighted average cost formula. The First In First Out cost formula is used for all other inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.9 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

1.11 Impairment of non-cash-generating assets

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Accounting Policies

1.11 Impairment of non-cash-generating assets (continued)

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

1.12 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Accounting Policies

1.12 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Other post retirement obligations

The municipality provides post-retirement medical scheme benefits upon retirement to some retirees. Payments to medical aid schemes are charged as an expense as they fall due.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If the municipality has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 47.

1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Services Charges

Service charges relating to electricity, water and sanitation are based on consumption. Meters are read and billed on a monthly basis and revenue is recognised when invoiced. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognized as revenue when invoiced. Adjustments to estimates of consumption are made in the invoicing period when meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse removal are recognised on a monthly basis by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the recorded number of refuse points per property

Service charges relating to sewerage are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category.

Revenue from Agency services

Revenue arising out of situations where the municipality acts as an agent on behalf of another entity (the principal) is limited to the amount of any fee or commission payable to the municipality as compensation for executing the agreed services.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

1.15 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a flat rating system. The same rate factor is applied for land and buildings. In terms of this system, assessment rates are levied on the value of land and buildings in respect of properties. Rebates are granted according to the use of the property concerned. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis

Grants, Transfers and Donations

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset. A corresponding liability is raised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Fines

Revenue from traffic fines is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured. Subsequent to initial recognition and measurement, the municipality assesses the collectability of the revenue and recognise an impairment loss where appropriate.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting municipality.

1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are reclassified. The nature and reason for the reclassification is disclosed.

Where accounting errors have been identified in the current financial year the correction is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as it is practical and the prior year comparatives are restated accordingly. The comparative figures (accounting policy and disclosures) may not be consistent with the current year accounting policies and disclosures due to the implementation of the new GRAP standards.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.18 Unauthorised expenditure

Unauthorized expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act 56 of 2003).

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.22 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2016/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.24 Related parties

Related parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the local sphere of government are considered to be related parties.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Accounting Policies

1.24 Related parties (continued)

Related party disclosures for transactions between government entities that took place on terms and conditions that are considered in arm's length and in the ordinary course of business are not disclosed in accordance with IPSAS 20 Related Party Disclosure.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

1.25 Value Added Tax

The municipality accounts for Value Added Tax on payment basis.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

- iGRAP 1 - Probability of revenue

iGRAP 1 - Probability of revenue

During the year, the municipality changed its accounting policy with respect to the treatment of traffic fines. In order to conform with the benchmark treatment in of iGRAP 1 – Probability of revenue. The municipality now recognises revenue arising from traffic fines when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured.

Statement of financial position

Trade receivable from non-exchange transaction (Traffic fines)

Adjustment	-	1,033,563
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Accumulated surplus

Adjustment	-	(1,033,563)
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3. New standards and interpretations

3.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25: Employee benefits	01 April 2013	Impact not material

3.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 105: Transfers of functions between entities under common control	01 April 2014	Not expected to have an impact
• GRAP 106: Transfers of functions between entities not under common control	01 April 2014	Not expected to have an impact
• GRAP 107: Mergers	01 April 2014	Not expected to have an impact
• GRAP 20: Related parties	01 April 2014	Unlikely to have material impact - possible additional disclosures.
• GRAP32: Service Concession Arrangements: Grantor	01 April 2015	Unlikely to have material impact - possible additional disclosures.
• GRAP108: Statutory Receivables	01 April 2015	Unlikely to have material impact - possible additional disclosures.
• IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2015	Unlikely to have material impact - possible additional disclosures.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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4. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	34,936,799	-	34,936,799	34,936,799	-	34,936,799

Reconciliation of investment property - 2014

	Opening balance	Total
Investment property	34,936,799	34,936,799

Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	34,936,799	34,936,799

Pledged as security

No assets were pledged as security.

Details of property

Investment property consist out of land only and is kept for capital appreciation. The fixed asset register is available for more details of investment property.

Other disclosure

There were no operating costs incurred related to the investment property.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

2014

2013

5. Property, plant and equipment

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	479,054,303	-	479,054,303	479,054,303	-	479,054,303
Buildings	112,301,145	(31,729,747)	80,571,398	108,029,804	(26,628,847)	81,400,957
Plant and machinery	23,509,786	(11,882,721)	11,627,065	23,688,126	(10,067,534)	13,620,592
Furniture and fixtures	7,627,132	(5,548,951)	2,078,181	7,708,629	(5,028,658)	2,679,971
Motor vehicles	36,122,917	(24,583,761)	11,539,156	34,566,416	(21,178,060)	13,388,356
IT equipment	6,143,219	(4,053,482)	2,089,737	13,392,003	(10,919,921)	2,472,082
Infrastructure - Electricity	94,011,543	(14,856,663)	79,154,880	91,355,651	(11,870,394)	79,485,257
Infrastructure - Roads and paving	199,608,933	(61,518,453)	138,090,480	199,608,934	(53,182,281)	146,426,653
Game	8,288,244	-	8,288,244	9,489,891	-	9,489,891
Infrastructure - Sewerage	10,979,904	(1,179,852)	9,800,052	10,979,904	(978,808)	10,001,096
Infrastructure - Solid waste disposal	5,702,139	(473,415)	5,228,724	5,422,064	(335,454)	5,086,610
Infrastructure - Water	576,063,870	(131,933,203)	444,130,667	546,388,962	(107,107,606)	439,281,356
Capital work in progress	200,513,645	-	200,513,645	86,529,930	-	86,529,930
Total	1,759,926,780	(287,760,248)	1,472,166,532	1,616,214,617	(247,297,563)	1,368,917,054

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Classified as held for sale	Transfers - WIP completed	Depreciation	Impairment loss	Total
Land	479,054,303	-	-	-	-	-	-	479,054,303
Buildings	81,400,957	4,271,342	-	-	-	(5,100,901)	-	80,571,398
Plant and machinery	13,620,592	360,053	-	(25,723)	-	(2,327,857)	-	11,627,065
Furniture and fixtures	2,679,971	131,602	-	(24,712)	-	(708,680)	-	2,078,181
Motor vehicles	13,388,356	1,556,500	-	-	-	(3,405,700)	-	11,539,156
IT equipment	2,472,082	1,095,603	-	(19,547)	-	(1,458,401)	-	2,089,737
Infrastructure - Electricity	79,485,257	2,655,891	-	-	-	(2,986,268)	-	79,154,880
Infrastructure - Roads and paving	146,426,653	-	-	-	-	(7,957,644)	(378,529)	138,090,480
Game	9,489,891	-	(1,201,647)	-	-	-	-	8,288,244
Infrastructure - Sewerage	10,001,096	-	-	-	-	(201,044)	-	9,800,052
Infrastructure - Solid waste disposal	5,086,610	280,075	-	-	-	(137,961)	-	5,228,724
Infrastructure - Water	439,281,356	25,588,075	-	-	4,096,661	(24,825,598)	(9,827)	444,130,667
Capital work in progress	86,529,929	118,080,377	-	-	(4,096,661)	-	-	200,513,645
	1,368,917,053	154,019,518	(1,201,647)	(69,982)	-	(49,110,054)	(388,356)	1,472,166,532

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand

5. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Classified as held for sale	Transfers - WIP completed	Revaluations	Depreciation	Impairment loss	Total
Land	479,054,303	-	-	-	-	-	-	479,054,303
Buildings	83,995,119	4,778,435	(2,013,789)	1,092,139	-	(4,911,330)	(1,539,617)	81,400,957
Plant and machinery	14,070,309	2,662,085	-	-	-	(3,111,802)	-	13,620,592
Furniture and fixtures	3,413,341	411,411	(21,254)	-	-	(1,123,527)	-	2,679,971
Motor vehicles	14,530,473	2,745,975	-	-	-	(3,888,092)	-	13,388,356
IT equipment	3,475,833	857,244	(25,056)	-	-	(1,835,939)	-	2,472,082
Infrastructure - Electricity	47,779,164	19,287,978	-	15,424,040	-	(2,741,119)	(264,806)	79,485,257
Infrastructure - Roads and paving	143,352,890	10,798,587	-	1,376,192	-	(8,413,930)	(687,086)	146,426,653
Game	9,489,891	-	-	-	-	-	-	9,489,891
Infrastructure - Sewerage	10,188,760	254,283	-	-	-	(198,135)	(243,812)	10,001,096
Infrastructure - Solid waste disposal	5,040,692	168,383	-	-	-	(122,465)	-	5,086,610
Infrastructure - Water	371,116,769	39,656,652	-	52,467,392	-	(23,637,848)	(321,609)	439,281,356
Capital work in progress	108,228,066	50,204,676	-	(70,359,763)	(1,543,049)	-	-	86,529,930
	1,293,735,610	131,825,709	(2,060,099)	-	(1,543,049)	(49,984,187)	(3,056,930)	1,368,917,054

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
5. Property, plant and equipment (continued)		
Impairment of assets		
Buildings	-	1,539,617
Infrastructure_Roads and paving	378,529	687,086
Infrastructure_Sewerage	-	243,812
Infrastructure_Electricity	-	264,806
Infrastructure_Water	9,827	321,609
	-	258,852
Pledged as security		
No assets were pledged as security.		
Assets subject to finance lease (Net carrying amount)		
IT equipment	-	636,353
Details of properties		
A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.		
6. Inventories		
Consumable stores	730,175	887,260
Water inventory	167,269	134,084
	897,444	1,021,344
7. Receivables from exchange transactions		
Interest receivable - Investments	170,868	159,726
8. Receivables from non-exchange transactions		
Rates	60,453,489	44,435,267
Traffic fines	6,039,200	4,540,900
Provision for impairment_Traffic fines	(4,784,136)	(3,507,337)
Provision for impairments_Rates	(12,234,863)	(12,043,465)
	49,473,690	33,425,365
Net rates		
Current (0-30 days)	5,045,110	4,698,902
31 - 60 days	2,563,839	2,361,587
61 - 90 days	2,381,413	2,086,654
91+ days	38,227,010	23,571,109
	48,217,372	32,718,252

Nkomazi Local Municipality

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8. Receivables from non-exchange transactions (continued)

Net traffic fines

1,255,064 1,033,563

2014 - Summary of debtors by customer classification (Rates)

	Residential	Industrial / commercial	National and provincial government	Schools, churches, Hospitals & Clinics and Handovers	Total
Current	1,611,357	2,906,331	348,744	178,676	5,045,110
31 - 60 days	884,716	1,811,233	401,620	192,853	3,290,422
61 - 90 days	573,586	1,953,491	420,658	108,563	3,056,297
90 + days	6,206,530	34,164,701	6,459,151	2,230,024	49,060,406
Less: Provisions for impairments	(2,020,247)	(8,164,761)	(1,505,902)	(543,952)	(12,234,863)
	7,255,942	32,670,995	6,124,271	2,166,164	48,217,372

2013 - Summary of debtors by customer classification (Rates)

	Residential	Industrial / commercial	National and provincial government	Schools, churches, Hospitals & Clinics and Handovers	Total
Current	1,545,863	2,615,766	278,808	258,465	4,698,902
31 - 60 days	881,280	1,834,930	338,843	122,105	3,177,158
61 - 90 days	674,337	1,598,824	396,124	137,993	2,807,277
90 + days	7,878,782	16,388,827	7,064,314	2,746,457	34,078,380
Less: Provisions for impairments	(4,425,576)	(5,147,306)	(1,745,847)	(724,736)	(12,043,465)
	6,554,686	17,291,041	6,332,242	2,540,284	32,718,252

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 1 months past due are not considered to be impaired. At 30 June 2014, R 5,045,110 (2013: R 4,698,902) were less than 1 month past due but not impaired.

Receivables from non-exchange transactions impaired

As of 30 June 2014, other receivables from non-exchange transactions of R 17,018,999 (2013: R 15,550,802) were impaired and provided for.

The ageing of these debtors are as follows:

1 month past due	726,583	815,571
2 and more month past due	16,292,416	14,735,231

9. VAT receivable

VAT 31,487,145 11,330,194

VAT is payable on the payment basis. Only once payment is received from debtors, the VAT portion of the receipt is paid over to SARS with input VAT only claimed when payment is made to creditors.

Nkomazi Local Municipality

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Figures in Rand	2014	2013
10. Consumer debtors - exchange transactions		
Gross balances		
Electricity	6,523,288	6,161,650
Water	3,400,316	3,968,019
Sewerage	972,333	916,361
Refuse	1,152,633	1,204,532
Other	11,229,688	8,399,868
	23,278,258	20,650,430
Less: Allowance for impairment		
Electricity	(1,320,241)	(1,406,376)
Water	(688,186)	(905,687)
Sewerage	(196,789)	(209,156)
Refuse	(233,280)	(274,930)
Other	(2,272,764)	(1,917,241)
	(4,711,260)	(4,713,390)
Net balance		
Electricity	5,203,047	4,755,274
Water	2,712,130	3,062,332
Sewerage	775,544	707,205
Refuse	919,353	929,602
Other	8,956,924	6,482,627
	18,566,998	15,937,040
Net Electricity		
Current (0 - 30 days)	3,370,159	3,389,049
31 - 60 days	538,695	378,517
61 - 90 days	199,315	158,395
91+ days	1,094,878	829,313
	5,203,047	4,755,274
Net Water		
Current (0 - 30 days)	951,798	976,434
31 - 60 days	313,138	303,973
61 - 90 days	126,401	234,194
91+ days	1,320,793	1,547,731
	2,712,130	3,062,332
Net Sewerage		
Current (0 - 30 days)	294,434	271,553
31 - 60 days	81,761	70,462
61 - 90 days	53,196	46,655
90+ days	346,153	318,535
	775,544	707,205
Net Refuse		
Current (0 - 30 days)	308,299	310,091
31 - 60 days	76,958	68,141
61 - 90 days	56,222	44,417
90+ days	477,874	506,953
	919,353	929,602

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
10. Consumer debtors - exchange transactions (continued)		
Net Other		
Current (0 - 30 days)	1,091,710	964,692
31 - 60 days	629,911	410,278
61 - 90 days	787,575	411,816
91+ days	6,447,728	4,695,841
	8,956,924	6,482,627
Summary of debtors by customer classification		
Residential		
Current	1,921,578	1,944,893
31 - 60 days	644,160	543,558
61 - 90 days	316,510	323,182
91+ days	1,667,325	1,987,274
	4,549,573	4,798,907
Less: Allowance for impairment	(777,934)	(1,002,721)
	3,771,639	3,796,186
Industrial/ commercial		
Current	3,465,862	3,290,969
31 - 60 days	1,318,756	1,131,754
61 - 90 days	1,077,956	766,250
91+ days	9,178,021	5,909,017
	15,040,595	11,097,990
Less: Provision for bad debts	(3,143,993)	(2,507,249)
	11,896,602	8,590,741
National and provincial government		
Current	415,885	350,776
31 - 60 days	292,419	208,993
61 - 90 days	232,124	189,846
91+ days	1,735,189	2,547,049
	2,675,617	3,296,664
Less: Provision for bad debts	(579,876)	(850,401)
	2,095,741	2,446,263
Schools, Churches, Hospitals & Clinics and Handovers		
Current	213,076	325,181
31 - 60 days	140,416	75,313
61 - 90 days	59,905	66,135
91+ days	599,075	990,239
Less: Provision for bad debts	(209,459)	(353,019)
	803,013	1,103,849
Total		
Current	6,016,400	5,911,819
31 - 60 days	2,395,752	1,959,618
61 - 90 days	1,686,496	1,345,412
91+ days	13,179,610	11,433,581
	23,278,258	20,650,430
Less: Provision for bad debts	(4,711,260)	(4,713,390)
	18,566,998	15,937,040

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
10. Consumer debtors - exchange transactions (continued)		
Provision for bad debts		
31 - 60 days	(755,289)	(728,247)
61 - 90 days	(463,787)	(449,935)
91+ days	(3,492,184)	(3,535,208)
	(4,711,260)	(4,713,390)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(4,713,390)	(7,361,798)
Contributions to allowance	2,130	2,648,408
	(4,711,260)	(4,713,390)
Consumer debtors past due but not impaired		
Receivables from exchange transactions which are less than 1 months past due are not considered to be impaired. At 30 June 2014, R 6,016,400 (2013: R 5,911,819) were less than 1 month past due but not impaired.		
Consumer debtors impaired		
As of 30 June 2014, consumer debtors were impaired and provided for.		
The amount of the provision was R 4,711,261 as of 30 June 2014 (2013: R 4,713,390).		
1 month past due	755,289	780,259
2 and more months past due	3,955,973	3,933,131

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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11. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	2,000	2,000
Bank balances	3,396,801	2,612,477
Short-term deposits	5,000,000	5,000,000
Bank overdraft	(4,433,376)	-
	3,965,425	7,614,477
Current assets	8,398,800	7,614,476
Current liabilities	(4,433,376)	-
	3,965,424	7,614,476

Additional disclosure:

The municipality has a cession of R5,000,000.00 as security in respect of ABSA investment for the guarantees that have been issued to Eskom by Absa bank.

The remaining cash and cash equivalent balances held by the municipality is available for use by the municipality.

Short term fixed deposits

Short term fixed deposits consists of :

ABSA - Account 2068718251	5,000,000	5,000,000
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The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2014	30 June 2013	30 June 2012	30 June 2014	30 June 2013	30 June 2012
ABSA BANK, Malelane branch - Primary Account - Account number 1650 000 087	(503,883)	2,734,595	706,311	(4,433,374)	537,162	(12,986,347)
ABSA BANK, Malelane branch - MIG Account - Account number 4077034870	3,283,205	1,961,718	5,046,570	3,283,205	1,961,718	4,943,961
ABSA BANK, Malelane branch - MIG Transfer Account - Account number 4080254392	19,450	8	-	-	-	-
ABSA BANK - Trust Account - 4078501159	116,675	113,596	-	113,697	113,596	-
Total	2,915,447	4,809,917	5,752,881	(1,036,472)	2,612,476	(8,042,386)

Nkomazi Local Municipality

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Figures in Rand	2014	2013
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12. Intangible assets

	2014			2013		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	509,034	(237,867)	271,167	405,386	(160,658)	244,728

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	244,728	106,348	(79,909)	271,167

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	191,249	119,200	(65,721)	244,728

Pledged as security

No intangible assets were pledged as security:

13. Heritage assets

	2014			2013		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	2,812,819	-	2,812,819	2,812,819	-	2,812,819

Reconciliation of heritage assets 2014

	Opening balance	Total
Historical monuments	2,812,819	2,812,819

Reconciliation of heritage assets 2013

	Opening balance	Impairment losses	Total
Historical monuments	3,071,671	(258,852)	2,812,819

Pledged as security

No heritage assets were pledged as security

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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14. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

2014

	Loans and receivables	Total
Cash and cash equivalents	8,398,800	8,398,800
Deposits made	3,505,209	3,505,209
Trade and other receivables from exchange transactions	18,737,866	18,737,866
Trade and other receivables from non-exchange transactions	49,473,690	49,473,690
	80,115,565	80,115,565

2013

	Loans and receivables	Total
Cash and cash equivalents	7,614,476	7,614,476
Deposits Made	3,301,928	3,301,928
Trade and other receivables from exchange transactions	16,096,766	16,096,766
Trade and other receivables from non-exchange transactions	33,425,365	33,425,365
	60,438,535	60,438,535

15. Other financial liabilities

At amortised cost

Annuity loan - DBSA	3,104,774	3,481,150
These loans from DBSA bear interest between 13.4% and 17.5% per annum and are repayable in equal bi-annual repayments. Refer to Appendix A for more details on long-term liabilities.		

Long term borrowings have been utilised in accordance with the Municipal Finance Management Act.

Above borrowings from external parties were utilised in order to finance Property, Plant and Equipment.

There were no default on principal and interest repayments. None of the terms were renegotiated.

Non-current liabilities

At amortised cost	2,673,785	3,116,575
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Current liabilities

At amortised cost	430,989	364,575
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Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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16. Finance lease obligation

Minimum lease payments due

- not later than one year	-	697,256
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Less: future finance charges

-	697,256
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-	(30,258)
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Present value of minimum lease payments

-	666,998
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Present value of minimum lease payments due

- not later than one year	-	666,998
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All finance lease agreements of the municipality for lease of IT equipment have expired.

Defaults and breaches

There were no default on principal and interest repayments. None of the terms and conditions were renegotiated.

17. Operating lease asset (accrual)

Non-current assets	100,172	15,892
Current assets	1,946	30,394
Non-current liabilities	(48,421)	-
Current liabilities	(107,049)	(39,223)
	(53,352)	7,063

Refer to note 46 for more details.

18. Deposits made

Eskom - electricity	3,505,209	3,301,928
	3,505,209	3,301,928

19. Non-current assets held for sale and assets of disposal groups

The municipality has decided to discontinue operations of its property, plant and equipment. The asset of the disposal group are set out below.

The decision was made by the accounting officer after obtaining approval from council to discontinue these operations due to that they are no longer needed to provide the minimum level of basic municipal services.

Assets and liabilities

Non-current assets held for sale

Property, plant and equipment	2,130,081	2,060,099
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Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
20. Trade and other payables from exchange transactions		
Trade payables	158,028,585	77,530,876
Staff bonus accrual	5,805,781	5,229,050
Debtors with credit balances	9,142,112	8,197,072
Salary suspense accounts - Third parties	5,882,667	7,041,168
Deposits received	2,802,919	2,464,618
Accrued interest payable on external borrowings	127,735	143,642
Staff leave accrual	17,421,686	11,284,133
Other creditors	58,201	5,444
Retentions	7,915,980	10,811,248
	207,185,666	122,707,251

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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Figures in Rand	2014	2013
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21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant	-	9,415,869
Extended Public Works Programme	-	1,491,767
Integrated National Electrification Grant	1,699,350	924,587
Water Services Operating Subsidy Grant	4,265,012	4,539,654
Municipal Water Infrastructure Grant	10,711,567	-
Rural Household Infrastructure Grant	238,700	-
	16,914,629	16,371,877

Movement during the year

Balance at the beginning of the year	16,371,877	7,811,230
Current-year receipts	192,777,000	166,247,000
Conditions met - transferred to revenue	(192,234,248)	(157,686,353)
	16,914,629	16,371,877

The municipality utilised MWIG conditional funds amounting to R10,711,567 and WSOG conditional funds amounting to R3,423,740.12 for other operational purposes as they are not cash backed. These funds were replaced by the equitable share received after year end.

See note 31 for reconciliation of grants from National/Provincial Government.

22. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Additions	Reversed during the year	Total
Performance Bonus Provision	334,259	448,000	(334,259)	448,000
Long Service Award Provision	121,694	974,997	(121,694)	974,997
	455,953	1,422,997	(455,953)	1,422,997

Reconciliation of provisions - 2013

	Opening Balance	Additions	Reversed during the year	Total
Audit Fees Provision	811,952	-	(811,952)	-
Performance Bonus Provision	57,149	334,259	(57,149)	334,259
Long Service Award Provision	99,524	121,694	(99,524)	121,694
	968,625	455,953	(968,625)	455,953

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. These employees are awarded proportionally every five years based on 5 days basic salary for 5 years service.

Performance bonuses are paid in arrears as the assessment of eligible employees had not taken place at the reporting date and no present obligation exist.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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Figures in Rand	2014	2013
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23. Employee benefit obligations

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees [or specify number of employees covered]. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose.

The municipality is under no obligation to cover any unfunded benefits.

Included in defined contribution plan information above, is the following plan(s) which is (are) a Multi-Employer Funds and is (are) a Defined Benefit Plans, but due to the fact that sufficient information is not available to enable the municipality to account for the plan(s) as a defined benefit plan(s). The municipality accounted for this (these) plan(s) as a defined contribution plan(s):

24. Trade payables from non-exchange transactions

The municipality has received money on behalf of family members which were involved in a train and truck accident.

Family fund train accident fund	113,596	113,596
	113,596	113,596

25. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

2014

	Financial liabilities at amortised cost	Total
Other financial liabilities	3,104,773	3,104,773
Trade and other payables from exchange transactions	206,317,799	206,317,799
Trade payables from non-exchange transactions	113,596	113,596
Bank overdraft	4,433,374	4,433,374
	213,969,542	213,969,542

2013

	Financial liabilities at amortised cost	Total
Other financial liabilities	3,624,777	3,624,777
Trade and other payables from exchange transactions	110,087,800	110,087,800
Trade and other payables from non-exchange transactions	113,596	113,596
Finance lease obligations	666,998	666,998
	114,493,171	114,493,171

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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Figures in Rand	2014	2013
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26. Revenue

Service charges	76,852,213	69,204,926
Rental of facilities and equipment	3,609,558	3,488,682
Interest earned - debtors	5,220,039	2,694,724
Recoveries	1,035,463	427,395
Other income	6,339,103	31,678,188
Interest earned - external	1,794,381	3,047,658
Property rates	64,117,325	59,400,809
Government grants & subsidies	483,860,819	418,193,781
Agency services	7,847,619	7,708,858
Public contributions and donations	3,752,226	452,381
Fines	2,690,234	357,027
Licences and permits	19,295	29,554
	657,138,275	596,683,983

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	76,852,213	69,204,926
Rental of facilities and equipment	3,609,558	3,488,682
Interest earned - debtors	5,220,039	2,694,724
Recoveries	1,035,463	427,395
Other income	6,339,103	31,678,188
Interest earned - external	1,794,381	3,047,658
	94,850,757	110,541,573

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	64,117,325	59,400,809
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Transfer revenue

Government grants & subsidies	483,860,819	418,193,781
Agency services	7,847,619	7,708,858
Public contributions and donations	3,752,226	452,381
Fines	2,690,234	357,027
Licences and permits	19,295	29,554
	562,287,518	486,142,410

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

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Figures in Rand	2014	2013
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27. Property rates

Rates received

Residential	37,171,738	38,575,043
Business	15,833,371	14,819,606
Government	9,404,600	5,435,692
Agricultural	1,707,616	568,100
Less: Income forgone	-	2,368
	64,117,325	59,400,809

Rates are levied on monthly basis and repayable in twelve equal payments with the final date of payment being the municipality's year end. Interest equal to the prime rate as determined by the South African Reserve bank per annum is levied on outstanding rates.

In cents

Assessment rates are levied as follows

Unimproved Residential Stands	4	4
Improved Residential Stands	1	1
Business	2	2
State Owned	3	1
Nature reserve Sanpark business properties	20	19
	30	27

Rebates are granted to pensioners, permanent disables persons, consolidated and notarial tide accounts as follow in %:

Consolidated or Notarial tide	-	-
- 2 stands	20	20
- 3 stands	30	30
- 4 stands or more	40	40
Pensioners or Permanent medically disabled	-	-
- income less than R1,200 per month	40	40
- income more than R1,200 less than R2,000 per month	20	20
	150	150

Valuations

Residential	3,755,591,490	4,431,146,447
Business	1,329,015,055	1,442,420,433
Government	284,922,118	416,002,196
Municipal	1,414,627	1,414,627
Schools	4,899,000	4,899,000
Churches	2,426,923	2,133,147
Industrial	8,197,786	8,197,786
Agriculture	1,574,840,187	1,089,786,251
Other - Unimproved and industrial	696,195,855	559,100
	7,657,503,041	7,396,558,987

Assessment rates are charged on the valuation roll done before demarcation.

Valuations on land are performed every three years and the last general valuation came into effect on the following dates:

- Supplementary valuations 1 May 2011
- General valuations 1 July 2009

The municipality performed a general valuation roll which commenced on 1 February 2013 which will come into effect 1 July 2014.

Nkomazi Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
28. Service charges		
Sale of electricity	55,892,236	50,422,035
Sale of water	12,385,237	11,801,910
Sewerage and sanitation charges	3,468,359	2,719,609
Refuse removal	5,106,381	4,261,372
	76,852,213	69,204,926
29. Rental of facilities and equipment		
Facilities and equipment		
Rental of facilities	3,609,558	3,488,682
30. Interest earned - external		
Interest earned - external		
Bank	652,531	1,498,150
Investment	1,141,850	1,549,508
	1,794,381	3,047,658

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Notes to the Annual Financial Statements

Figures in Rand	2014	2013
31. Government grants and subsidies		
Equitable share	290,822,000	259,653,000
Municipal Infrastructure Grant	141,062,045	130,178,451
Financial Management Grant	1,550,000	1,500,000
Municipal Systems Improvement Grant	890,000	800,000
LG SETA Grant	-	84,600
Integrated National Electrification Grant	19,000,060	15,923,723
Expanded Public Works Programme	7,535,767	6,245,233
Water Services Operating and Subsidy Grant	8,767,642	2,954,346
HIV Grant	804,572	854,428
Municipal Water Infrastructure Grant	9,167,433	-
Rural Household Infrastructure Grant	4,261,300	-
	483,860,819	418,193,781

Equitable Share

In terms of the Division of Revenue Act, the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to indigent community members in line with national policy.

Municipal Infrastructure Grant

Balance unspent at beginning of year	9,415,869	3,478,320
Current-year receipts	131,421,000	136,116,000
Conditions met - transferred to revenue	(140,836,869)	(130,178,451)
	-	9,415,869

The grant is intended to provide capital finance for basic municipal infrastructure for poor households, micro enterprises and social institutions, to provide for new, rehabilitation and upgrading of municipal infrastructure and to eradicate the bucket sanitation system mainly in urban townships.

Financial Management Grant

Current year - receipts	1,550,000	1,500,000
Conditions met - transferred to revenue	(1,550,000)	(1,500,000)
	-	-

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA).

Expanded Public Works Programme

Balance unspent at beginning of year	1,491,767	-
Current-year receipts	6,044,000	7,737,000
Conditions met - transferred to revenue	(7,535,767)	(6,245,233)
	-	1,491,767

This grant is intended to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in different areas in compliance with the EPWP guidelines.

Nkomazi Local Municipality

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31. Government grants and subsidies (continued)

Integrated National Electrification Grant

Balance unspent at beginning of year	924,587	4,248,310
Current-year receipts	20,000,000	12,600,000
Conditions met - transferred to revenue	(19,225,237)	(15,923,723)
	1,699,350	924,587

This grant is intended to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply.

Water Services Operating Subsidy Grant

Balance unspent at beginning of year	4,539,654	-
Current-year receipts	8,493,000	7,494,000
Conditions met - transferred to revenue	(8,767,642)	(2,954,346)
	4,265,012	4,539,654

This grant is intended to subsidise and build capacity in water schemes owned and / or operated by Department of Water Affairs (DWA) or by agencies on behalf of the department.

Municipal System Improvement Grant

Current-year receipts	890,000	800,000
Conditions met - transferred to revenue	(890,000)	(800,000)
	-	-

This grant is intended to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems as required in the Local Government Systems Act and related legislation and policies.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

LG SETA Grant

Balance unspent at beginning of year	-	84,600
Conditions met - transferred to revenue	-	(84,600)
	-	-

This grant is intended provide support training for employees and the unemployed.

Municipal Water Infrastructure Grant

Current-year receipts	19,879,000	-
Conditions met - transferred to revenue	(9,167,433)	-
	10,711,567	-

This grant is intended to facilitate the planning, acceleration and implementation of various projects that will ensure water supply to communities identified as not receiving a basic water supply service.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
31. Government grants and subsidies (continued)		
Rural Household Infrastructure Grant		
Current-year receipts	4,500,000	-
Conditions met - transferred to revenue	(4,261,300)	-
	238,700	-
This grant is intended to eradicate rural water and sanitation backlogs.		
32. Public contributions and donations		
Public contributions and donations	3,752,226	452,381
33. Recoveries		
Legal fees recovered	1,035,463	427,395
34. Other income		
Building Plan Fees	615,036	450,292
Entrance Fees	1,137,402	1,139,615
Fire Fighting Services	5,106	1,766
Library membership fees	21,351	22,407
Sale of Game	855	28,049
Search Fees	643,657	643,573
Seta Training Refund	2,272,736	81,263
Sundry	950,422	29,037,494
Tender documents	692,538	273,729
	6,339,103	31,678,188

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
35. Employee related costs		
Salaries and wages	129,507,483	99,509,967
Medical aid and UIF contributions	9,204,333	8,188,738
Bonus	10,475,057	10,374,154
Overtime payments	20,225,208	17,070,441
Allowances	8,929,679	8,439,307
Housing benefits and other allowances	2,363,718	2,236,268
Pension fund contributions	28,597,879	23,186,466
Other employee related costs	1,796,305	1,745,516
Standby	3,171,643	3,252,357
Temporary employees	13,250,812	9,731,820
Subsistence and transport	15,810,194	10,592,455
	243,332,311	194,327,489
Remuneration of Municipal Manager		
Annual Remuneration	1,002,050	945,000
Travel, car and other allowances	200,679	144,308
Contributions to UIF, Medical and Pension Funds	233,504	203,933
	1,436,233	1,293,241
Remuneration of Chief Financial Officer		
Annual Remuneration	858,150	813,000
Travel, car and other allowances	172,279	124,000
Contributions to UIF, Medical and Pension Funds	201,473	183,447
	1,231,902	1,120,447
Remuneration of Director - Technical Services		
Annual Remuneration	769,570	499,524
Travel, car and other allowances	83,895	188,000
Contributions to UIF, Medical and Pension Funds	201,611	91,089
	1,055,076	778,613
Remuneration of Director - Community Services		
Annual Remuneration	718,594	508,059
Travel, car and other allowances	51,261	144,000
Contributions to UIF, Medical and Pension Funds	155,080	86,827
Leave pay	-	63,363
	924,935	802,249

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
35. Employee related costs (continued)		
Remuneration of Acting Director - Community Services		
Acting allowance	-	53,217
Remuneration of Director - Planning and Development		
Annual Remuneration	728,549	454,595
Travel, car and other allowances	51,628	192,000
Contributions to UIF, Medical and Pension Funds	163,880	94,762
Leave pay	-	81,079
	944,057	822,436
Remuneration of Acting Director - Planning and development		
Acting allowance	-	66,820
Remuneration of Director - Corporate Services		
Annual Remuneration	685,135	618,000
Travel, car and other allowances	134,979	124,000
Contributions to UIF, Medical and Pension Funds	161,640	139,946
	981,754	881,946
36. Remuneration of Councillors		
Executive Mayor	754,081	719,578
Speaker	588,927	554,738
Chief Whip	574,098	551,250
Mayoral Committee Members	2,832,185	2,687,828
Councillors basic remuneration	7,960,859	8,252,962
Councillors' pension and other contributions	1,961,093	1,554,700
Councillors' Allowances	4,465,270	3,912,142
	19,136,513	18,233,198
In-kind benefits		
The Executive Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Executive Mayor has use of a Council owned vehicle for official duties and has a full time bodyguard.		
37. Depreciation and amortisation		
Property, plant and equipment	49,110,057	49,988,256
Intangible assets	79,910	65,721
	49,189,967	50,053,977

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
38. Impairment of assets		
Impairments		
Property, plant and equipment	388,356	3,056,929
The events and circumstances that led to the recognition of the impairment of assets was evidence of damage. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell.		
Heritage assets	-	258,852
The events and circumstances that led to the recognition of the impairment of assets was evidence of damage. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell by using the condition assessment of the assets.		
	388,356	3,315,781
The main classes of assets affected by impairment losses are:		
Infrastructure_Roads & paving and Water		
Fair value less cost to sell		
Fair value less costs to sell is based on the best information available to reflect the amount that an entity could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the costs of disposal. In determining this amount, an entity could consider the outcome of recent transactions for similar assets within the same industry. Fair value less costs to sell does not reflect a forced sale, unless management is compelled to sell immediately.		
39. Finance costs		
Interest paid	1,107,367	416,344
Finance leases	31,149	203,052
Non-current borrowings	683,970	562,978
	1,822,486	1,182,374
40. Debt impairment		
Contributions to debt impairment provision	1,466,068	2,557,344
Bad debts written off	3,334,516	2,314,910
	4,800,584	4,872,254
41. Contracted services		
FMS Support Services	4,059,600	3,477,423
Security	18,027,491	13,179,288
Transport of Money	353,108	354,678
Fleet Management	826,245	6,570,695
	23,266,444	23,582,084
42. Bulk purchases		
Electricity	56,042,272	54,055,775
Water	2,117,068	672,307
	58,159,340	54,728,082

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
43. General expenses		
Advertising	998,574	987,673
Auditors remuneration	3,708,140	2,353,498
Bank charges	1,339,794	533,998
Chemicals	13,079,176	10,015,168
Cleaning Material	270,267	258,919
Conferences	190,162	337,694
Consulting and professional fees	13,971,295	9,259,958
Data cleansing	729,800	185,820
Debt collection commission	1,034,642	296,510
Disaster Management	16,921,559	7,757,850
Electricity consumption	24,627,328	18,658,058
Entertainment	352,476	416,341
Fuel and Oil	11,912,890	13,879,694
GIS Shared services	250,000	219,298
IT systems	4,451,016	1,800,796
Insurance	4,814	1,476,195
License fees	26,057	61,231
Long-term development plans	3,334,001	510,000
Mayoral outreach	109,329	72,918
Municipal services	10,701,759	6,137,154
Networks and substations	874,440	989,100
New Connections	3,328,141	1,934,766
Occupational Health and Safety	86,711	133,390
Other expenses	617,636	525,919
Pest control	-	18,240
Postage and courier	216,777	172,165
Printing and stationery	1,383,356	1,272,266
Projects	20,658,594	10,469,211
Public Permits Staff	8,426	7,174
Refuse bags and holders	340,090	163,696
Rental of property and equipment	8,508,017	7,659,341
Repairs and maintenance	31,093,574	22,063,963
Sport Events	503,392	514,247
Stock and Material	1,113,990	1,151,496
Student financial aid support	40,580	96,586
Subscriptions and membership Fees	468,464	3,961,856
System development and support	381,100	134,370
Telephone and fax	2,617,097	3,416,890
Tollgate Fees	146,161	82,910
Town planning and township establishment fees	2,512,335	2,440,075
Traditional council	96,080	91,122
Training	3,460,114	1,945,015
Transvesal unit	680,244	730,995
Travel and accommodation - Local	2,470,691	2,371,506
Uniforms	1,730,618	1,689,770
Valuation roll	1,262,531	231,556
Ward Committees	538,965	149,025
Water Quality Monitoring	2,506,400	3,393,658
	195,657,603	143,029,081
44. Auditors' remuneration		
Fees	3,708,140	2,353,498

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
45. Cash generated from operations		
Surplus	53,609,067	97,540,694
Adjustments for:		
Depreciation and amortisation	49,189,967	50,053,977
Loss on disposal of game assets	1,201,647	-
Finance costs - Finance leases	31,149	203,052
Impairment loss	388,356	3,315,781
Bad debt provision	4,800,584	4,872,254
Movements in operating lease assets and accruals	60,415	(155,585)
Movements in provisions	967,044	27,155
Other non-cash items (WIP transferred to operating expenditure)	-	1,543,048
Other non-cash items (clearing of old bank recon items)	8,274	(25,961,696)
Changes in working capital:		
Increase / (decrease) in inventories	123,900	(140,715)
Receivables from exchange transaction	(11,142)	(14,521)
Consumer debtors - exchange transactions	(7,430,542)	(8,924,443)
Receivables from non-exchange transactions	(16,048,325)	(16,146,830)
Trade and other payables from exchange transactions	84,478,423	30,786,191
VAT	(20,156,951)	(5,639,025)
Unspent conditional grants and receipts	542,752	8,560,646
	151,754,618	139,919,983

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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46. Capital Commitments

Authorised capital expenditure

Approved and already contracted for but not provided for

• Property, plant and equipment	3,596,265	1,580,610
• Infrastructure	138,491,615	80,116,684
• Other services	8,776,431	5,952,818
	150,864,311	87,650,112

This committed expenditure relates mainly to infrastructure development and will be financed by available government and other grants, bank facilities, and retained surpluses.

Funding sources

This expenditure will be financed from:

- Government and Other Grants	142,511,603	71,273,525
- Revenue and equitable share	8,352,708	16,376,587
	150,864,311	87,650,112

Operating leases - as lessee (expense)

Minimum lease payments due

- not later than one year	2,784,926	318,529
- later than one year and not later than five years	1,005,996	-
	3,790,922	318,529

Operating lease payments represent rentals payable by the municipality for certain of its properties. Leases are negotiated for an average term of three years to five years and rentals escalated by 10% per annum. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	209,821	144,712
- in second to fifth year inclusive	727,947	558,449
- later than five years	130,606	251,431
	1,068,374	954,592

Operating lease payments represent rentals receivable by the municipality for certain of its properties. Leases are negotiated for up to maximum term of 9 years 11 months and rental escalates between 0% to 10% per annum. No contingent rent is receivable.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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47. Contingencies

A Lubbe - Claim of R109,626.64 against unfair dismissal which might result in a possible loss of R300,000.00.

IMATU O.B.O L Lubisi - Claim of R120,270.00 for travel allowance.

Tarfix - Claim for retention money amounting to R2,679,068.48.

SM Shabangu - challenge againsts alleged unfair dismissal and anticipated costs claim of R1,020,000.00

Claim from Silinda Mokoena & Associates (Valuer) case no 64255/09 claims R1,264,063 for work done on the valuation roll for the municipality.

Matsamo cultural park - Claim for suffered damages caused by fire amounting to R1,500,000.00.

Maximum profit recovery - Claim for a breach of contract on VAT for an amount of R6,614,932.91.

Contingent assets

The municipality lodged a counter claim of R10,855,225.17 against Silinda Mokoena & Associates (Valuer) case no 64255/09, because the valuation roll was incorrect and the Valuer failed to make corrections as requested by the municipality. The municipality lodged its claim because it is losing possible revenue due to the incorrectness of the valuation roll.

Valor IT - Claim for recovery of amount paid to Valor IT to the value of R4,577,236.80 for breach of contract.

SM Shabangu - Claim for recovery of unauthorised expenditure amounting to R3,248,996.39

48. Related parties

Relationships

Business entities of municipal employees
Post employment benefit plan for employees of municipality
Remuneration of key management personnel

Bilani Security (P Shongwe)
Refer to Note on Employee Retirement Benefit Plans
Refer to note on compensation to Municipal Manager,
Chief Financial Officer, Executive Directors, Mayoral
Committee and Other Councillors

Related party balances

Related party transactions

Purchases from (sales to) related parties

Bilani Security	-	582,019
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Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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49. Prior period errors

Reclassification of property, plant and equipment were done to correctly classify the assets.

Correction of cash receipts_sundries allocated to the salary suspense error vote that was not accurately reconciled.

Correction of year end sundry vouchers cancelled relating to previous year.

Correction of deposits paid to eskom relating to previous years that were incorrectly classified.

Old bank reconciliation items (cheques) were cleared in the current year as it was impractical to perform the reconciliation on the financial system in the previous year.

Corrections of long term loan balance (DBSA) that was incorrectly overstated.

Corrections of transactions that were recorded inclusive of value added tax.

Correction of transactions relating to previous year which were recorded in current accounting period.

Correction of VAT receivable due to SARS assessment done on VAT returns.

The correction of the error(s) results in adjustments as follows:

Statement of financial position

Opening Accumulated Surplus or Deficit	-	3,707,364
Accumulated Surplus	-	(143,626)
Other financial liabilities	-	143,626
Plant and Machinery- cost	-	32,004
Furniture and fixtures - cost	-	(32,004)
Furniture and fixtures - Accum dep	-	8,501
Plant and Machinery - Accum dep	-	(8,501)
Plant and Machinery- cost	-	358,000
Motor vehicles - cost	-	(358,000)
IT Equipment - cost	-	7,907
Plant and Machinery - cost	-	(7,907)
IT Equipment - cost	-	13,333
Plant and Machinery - cost	-	(13,333)
IT Equipment - Accum dep	-	(8,760)
Plant and Machinery - Accum dep	-	8,760
Motor vehicles - Accum dep	-	14,917
Plant and Machinery - Accum dep	-	(14,917)
Motor vehicles - Accum dep	-	4,067
Input VAT	-	(1,800,111)
Accumulated surplus	8,285	-
Clearing of old bank reconciliation items	(8,285)	-
Deposit made	-	2,761,150
Trade payables from exchange transactions (salary suspense)	-	228,636
VAT receivable (Input VAT)	-	2,621,345
Trade payables from exchange transactions (sundry payments)	-	(9,428,170)
Trade payables from exchange transactions (salary suspense)	-	1,353,531
Trade payables from exchange transactions (creditors control)	-	455,606
VAT receivable (Input VAT)	-	(47,045)

50. Comparative figures

Certain comparative amounts have been reclassified as a result of incorrect mapping and classification.

The effects of the change are as follows:

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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50. Comparative figures (continued)

Statement of Financial Position

Trade and other payables from exchange transactions		5,229,050
Provisions_ annual bonus	-	(5,229,050)

Statement of Financial Performance

Other income	-	44,368
Rental of facilities and equipment	-	(44,368)
Licences and permits	-	29,554
Other income	-	(29,554)
Agency services	-	7,701,698
Licences and permits	-	(7,701,698)
Employee related cost	-	1,458,596
General expenses	-	(1,458,596)
General expenses	-	22,063,963
Repairs & maintenance	-	(22,063,963)

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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51. Risk management

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

At 30 June 2014	Less than 1 year	Between 1 and 5 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	430,989	2,673,785	-	-
Trade and other payables from exchange transactions	206,317,799	-	-	-
Bank overdraft	4,433,374	-	-	-
At 30 June 2013	Less than 1 year	Between 1 and 5 years	Between 2 and 5 years	Over 5 years
Other financial liabilities	364,575	3,260,202	-	-
Trade and other payables from exchange transactions	122,707,250	-	-	-
Finance lease obligations	666,998	-	-	-

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

Credit risk

Credit Risk consists mainly of cash deposits, cash equivalents and consumer debtors. The municipality only deposits cash with major banks. Credit Risk related to consumer debtors is managed in accordance with the Council's credit control and debt collection policy. The Council's credit exposure is spread over a large number and wide variety of consumers, and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts.

Financial instrument	2014	2013
Cash and cash equivalents	8,398,800	7,614,476
Receivable from non-exchange transactions	49,473,690	33,425,365
Receivable from exchange transactions	18,737,866	16,096,766
Deposits made	3,505,209	3,301,928

52. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The annual financial statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

53. Unauthorised expenditure

Unauthorised expenditure - Opening balance	36,906,702	100,880,977
Unauthorised expenditure - Current year	118,340,236	36,906,702
Unauthorised expenditure - Condoned by Council	(82,873,342)	(100,880,977)
	72,373,596	36,906,702

The unauthorised expenditure of R72,373,596 is awaiting for authorisation.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
54. Fruitless and wasteful expenditure		
Fruitless and wasteful expenditure - Opening balance	2,082,215	3,069,787
Fruitless and wasteful expenditure - Other: Current year	1,100,882	1,941,801
Telkom interest	6,486	16,594
SARS penalty and Interest	-	123,820
Fruitless and wasteful expenditure - Condoned by Council	(3,075,000)	(3,069,787)
	114,583	2,082,215
Fruitless and wasteful expenditure of R114,583 is awaiting for authorisation.		
55. Irregular expenditure		
Irregular expenditure - Opening balance	57,396,988	28,664,665
Irregular expenditure - Current year	69,530	48,291,067
Irregular expenditure - Condoned by Council	(57,396,988)	(19,558,744)
	69,530	57,396,988
Irregular expenditure of R69,530 is awaiting for authorisation		
56. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	11,020	7,642
Current year membership fee	140,538	131,412
Amount paid - current year	(139,811)	(120,392)
Amount paid - previous years	-	(7,642)
Due and payable	11,747	11,020
Audit fees		
Opening balance	-	811,952
Current year fee	3,196,294	-
Amount paid - current year	(2,620,114)	-
Amount paid - previous years	-	(811,952)
Due and payable	576,180	-
PAYE and UIF		
Opening balance	2,036,715	1,563,249
Current year deductions and contributions	27,443,881	22,483,785
Amount paid - current year	(29,267,425)	(20,447,070)
Amount paid - previous years	-	(1,563,249)
	213,171	2,036,715
Pension and Medical Aid Deductions		
Opening balance	3,995,651	3,535,856
Current year deductions and contributions	54,460,307	45,686,955
Amount paid - current year	(53,952,360)	(41,691,304)
Amount paid - previous years	-	(3,535,856)
	4,503,598	3,995,651

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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56. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable	31,487,145	11,330,194
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VAT output payables and VAT input receivables are shown in note 9.

Councillors' arrear consumer accounts

There are no councillors that had arrear accounts outstanding for more than 30 days at 30 June 2014:

30 June 2013	Outstanding more than 30 days R	Total R
Councillor Cloete A	- 12,589	12,589

Deviations

Incident

Deviations - Opening balance	937,332	2,750,731
Deviations - current year	25,780,892	8,001,255
Deviations noted by council	(26,499,823)	(9,814,654)
	218,401	937,332

57. Budget differences explanation

Material differences between budget and actual amounts

57.1 Interest earned_debtors - Interest was charged on outstanding debtors due to non-payment of debt than it was anticipated.

57.2 Recoveries - Not budgeted for since they are contingent in nature

57.3 Interest earned_external -Less investment made than anticipated due to cash flow constraint

57.4 Government grants & subsidies - R45 Million for MIG withheld by National Treasury.

57.5 Agency services - More revenue collected than budgeted for

57.6 Public contributions and donations - We did not budget for donations.

57.7 Fines - Non-payment of traffic fines issued and Less budget due to previous years trends.

57.8 Licences and permits -Less budget due to previous years trends

57.9 Depreciation and amortisation - Over budgeted for depreciation

57.10 Impairment loss / Reversal of impairments - Over budgeted for impairments.

57.11 Finance cost - Only Interest on external loans were budgeted.

57.12 Debt impairment - We wrote off less debtors than it was anticipated.

57.13 Employee related cost - R8 million of contract workers not budgtd and overtime more than budgeted.

Nkomazi Local Municipality

Annual Financial Statements for the year ended 30 June 2014

Notes to the Annual Financial Statements

Figures in Rand	2014	2013
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57. Budget differences explanation (continued)

57.14 General Expenditure - Unforeseen and unavoidable funds of R18 Million.

57.15 Loss on sale of game assets - Not budgeted

58. Distribution losses

Water	Year	Kilo litres pumped	Kilo litres sold	Loss in kilo litres	Loss in percentage
	30 June 2013	2,054,567	1,886,975	167,592	8%
	30 June 2014	2,345,019	2,109,575	235,444	10%

Water distribution loss calculated value amounts to R1,064,206 (2013: R688,802).

Electricity	Year	Units purchased	Units sold	Loss in units	Loss in percentage
	30 June 2013	73,952,823	46,425,533	27,527,290	37%
	30 June 2014	73,311,322	49,847,844	23,463,478	32%

Electricity distribution loss calculated value amounts to R24,167,382 (2013: R26,701,471).

Nkomazi Local Municipality

Appendix A

June 2014

Schedule of external loans as at 30 June 2014

Loan Number	Redeemable	Balance at 30 June 2013	Received during the period	Redeemed written off during the period	Balance at 30 June 2014	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Development Bank of South Africa							
Loan @ 16.5% (Upgrading of Malelane Infrastructure)	61003108	2019	3,624,761	-	392,283	3,232,478	-
Loan @ 15.26%	61002393	2012	15	-	-	15	-
			3,624,776	-	392,283	3,232,493	-
INCA loan							
Lease liability							
Total external loans							
Development Bank of South Africa							
			3,624,776	-	392,283	3,232,493	-
			3,624,776	-	392,283	3,232,493	-

Nkomazi Local Municipality

Appendix B

June 2014

Analysis of property, plant and equipment as at 30 June 2014

Cost

Accumulated depreciation

	Opening Balance	Additions	Donations	Transfers - WIP completed	Write off / Disposal	Closing Balance	Opening Balance	Write off	Impairment loss	Depreciation	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Land and buildings												
Land	479,054,303	-	-	-	-	479,054,303	-	-	-	-	-	479,054,303
Buildings	110,644,351	571,342	3,700,000	-	-	114,915,693	(27,229,607)	-	-	(5,100,900)	(32,330,507)	82,585,186
Work in progress	2,208,361	10,889,656	-	-	-	13,098,017	-	-	-	-	-	13,098,017
	591,907,015	11,460,998	3,700,000	-	-	607,068,013	(44,763,167)	-	-	(8,347,561)	(53,110,728)	553,957,285
Infrastructure												
Main: Roads and stormwater	199,608,934	-	-	-	-	199,608,934	(53,182,190)	-	(378,529)	(7,957,642)	(61,518,361)	138,090,573
Sewerage mains & purification	10,979,905	-	-	-	-	10,979,905	(978,810)	-	-	(201,043)	(1,179,853)	9,800,052
Main: Electricity	91,355,652	2,655,890	-	-	-	94,011,542	(11,870,657)	-	-	(2,986,270)	(14,856,927)	79,154,615
Main: Water and purification	546,388,963	25,588,076	-	4,096,661	-	576,073,700	(107,107,604)	-	(9,827)	(24,825,598)	(131,943,029)	444,130,671
Solid waste	5,422,063	280,075	-	-	-	5,702,138	(335,469)	-	-	(137,961)	(473,430)	5,228,708
Work in progress	80,224,908	107,190,720	-	-	-	187,415,628	-	-	-	-	-	187,415,628
	933,980,425	135,714,761	-	4,096,661	-	1,073,791,847	(173,474,730)	-	(388,356)	(36,108,514)	(209,971,600)	863,820,247
Other Assets												
Furniture and office equipment	7,767,277	79,377	52,226	-	(89,533)	7,809,347	(5,066,051)	89,533	-	(708,681)	(5,685,199)	2,124,148
Machinery and equipment	23,688,126	360,053	-	-	(387,519)	23,660,660	(10,067,532)	387,519	-	(2,327,857)	(12,007,870)	11,652,790
Computer equipment	13,525,210	1,095,604	-	-	(8,133,872)	6,486,942	(11,028,070)	8,133,872	-	(1,458,402)	(4,352,600)	2,134,342
Transport assets	34,566,417	1,556,500	-	-	-	36,122,917	(21,178,054)	-	-	(3,405,702)	(24,583,756)	11,539,161
Game	9,489,891	-	-	-	(1,201,647)	8,288,244	-	-	-	-	-	8,288,244
	89,036,921	3,091,534	52,226	-	(9,812,571)	82,368,110	(47,339,707)	8,610,924	-	(7,900,642)	(46,629,425)	35,738,685

Nkomazi Local Municipality

Appendix B

June 2014

Analysis of property, plant and equipment as at 30 June 2014

Cost

Accumulated depreciation

	Opening Balance	Additions	Donations	Transfers - WIP completed	Write off / Disposal	Closing Balance	Opening Balance	Write off	Impairment loss	Depreciation	Closing Balance	Carrying value
	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand
Heritage assets												
Historical Assets	2,812,819	-	-	-	-	2,812,819	-	-	-	-	-	2,812,819
	2,812,819	-	-	-	-	2,812,819	-	-	-	-	-	2,812,819
Investment Property												
Investment property	34,936,799	-	-	-	-	34,936,799	-	-	-	-	-	34,936,799
	34,936,799	-	-	-	-	34,936,799	-	-	-	-	-	34,936,799
Intangible Assets												
Computer software	405,386	106,348	-	-	(2,700)	509,034	(160,658)	2,700	-	(79,910)	(237,868)	271,166
	405,386	106,348	-	-	(2,700)	509,034	(160,658)	2,700	-	(79,910)	(237,868)	271,166
Total property plant and equipment	1,653,079,365	150,373,641	3,752,226	4,096,661	(9,815,271)	1,801,486,622	(265,738,262)	8,613,624	(388,356)	(52,436,627)	(309,949,621)	1,491,537,001
Intangible assets												
Investment properties												
Total												
Land and buildings	591,907,015	11,460,998	3,700,000	-	-	607,068,013	(44,763,167)	-	-	(8,347,561)	(53,110,728)	553,957,285
Infrastructure	933,980,425	135,714,761	-	4,096,661	-	1,073,791,847	(173,474,730)	-	(388,356)	(36,108,514)	(209,971,600)	863,820,247
Other Assets	89,036,921	3,091,534	52,226	-	(9,812,571)	82,368,110	(47,339,707)	8,610,924	-	(7,900,642)	(46,629,425)	35,738,685
Heritage assets	2,812,819	-	-	-	-	2,812,819	-	-	-	-	-	2,812,819
Investment Property	34,936,799	-	-	-	-	34,936,799	-	-	-	-	-	34,936,799
Intangible Assets	405,386	106,348	-	-	(2,700)	509,034	(160,658)	2,700	-	(79,910)	(237,868)	271,166
	1,653,079,365	150,373,641	3,752,226	4,096,661	(9,815,271)	1,801,486,622	(265,741,505)	8,613,624	(388,356)	(52,436,627)	(309,952,864)	1,491,533,758

Nkomazi Local Municipality

Appendix C

June 2014

Segmental analysis of property, plant and equipment as at 30 June 2014

Cost Accumulated Depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	WIP Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Depreciation Rand	Impairment Rand	Closing Balance Rand	Carrying value Rand
Municipality											
Executive & Council/Mayor and Council	2,166,656	80,396	(2,400)	-	2,244,652	(1,408,220)	2,400	(212,621)	-	(1,618,441)	626,211
Budget and treasury	40,958,970	2,032,330	(54,540)	-	42,936,760	(8,144,461)	54,540	(2,156,031)	-	(10,245,952)	32,690,808
Corporate Services	569,523,938	28,661,880	(8,302,239)	123,858,714	713,742,293	(19,369,830)	8,302,239	(4,115,689)	-	(15,183,280)	698,559,013
Community and social services	120,212,542	539,333	(109,832)	-	120,642,043	(39,918,416)	109,832	(11,474,937)	-	(51,283,521)	69,358,522
Planning and development	2,503,320	4,033,652	(20,320)	-	6,516,652	(825,737)	20,320	(412,599)	-	(1,218,016)	5,298,636
Civil Administration and PMU	1,907,128	366,971	(84,392)	-	2,189,707	(664,625)	84,392	(174,053)	-	(754,286)	1,435,421
Waste Water Management/Sewerage	172,469,138	4,327,169	-	3,175,787	179,972,094	(18,024,733)	-	(5,390,515)	-	(23,415,248)	156,556,846
Water/Water Distribution	346,910,449	93,250	(12,234)	61,649,108	408,640,573	(85,464,512)	12,234	(18,217,325)	(9,827)	(103,679,430)	304,961,143
Electricity /Electricity Distribution	68,809,561	7,170	(27,667)	2,259,459	71,048,523	(14,271,757)	27,667	2,480,472	-	(11,763,618)	59,284,905
Roads transport/Roads	245,186,841	-	-	9,570,577	254,757,418	(60,112,824)	-	(9,516,610)	(378,529)	(70,007,963)	184,749,455
	1,570,648,543	40,142,151	(8,613,624)	200,513,645	1,802,690,715	(248,205,115)	8,613,624	(49,189,908)	(388,356)	(289,169,755)	1,513,520,960
Total											
Municipality	1,570,648,543	40,142,151	(8,613,624)	200,513,645	1,802,690,715	(248,205,115)	8,613,624	(49,189,908)	(388,356)	(289,169,755)	1,513,520,960
	1,570,648,543	40,142,151	(8,613,624)	200,513,645	1,802,690,715	(248,205,115)	8,613,624	(49,189,908)	(388,356)	(289,169,755)	1,513,520,960

Nkomazi Local Municipality

Appendix D

June 2014

Segmental Statement of Financial Performance for the period ended 30 June 2014

Prior Year

Current Year

Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand		Actual Income Rand	Actual Expenditure Rand	Surplus /(Deficit) Rand
Municipality						
-	29,193,259	(29,193,259)	Executive & Council/Mayor and Council	7,535,767	47,402,797	(39,867,030)
219,071,922	55,543,024	163,528,898	Budget & Treasury Office	211,873,469	77,280,866	134,592,603
4,345,280	38,594,763	(34,249,483)	Corporate Services	6,993,001	49,188,747	(42,195,746)
41,312,652	102,493,578	(61,180,926)	Community & Social Services	40,959,876	122,652,342	(81,692,466)
716,299	14,400,771	(13,684,472)	Planning & Development	4,837,674	19,510,442	(14,672,768)
3,130,668	13,938,191	(10,807,523)	Civil Administration & PMU	4,057,683	15,028,426	(10,970,743)
2,724,906	11,131,870	(8,406,964)	Waste Water Management/Sewerage	7,729,659	20,537,995	(12,808,336)
387,261	29,866,720	(29,479,459)	Road Transport/Roads	64,275	30,886,479	(30,822,204)
219,701,288	114,090,673	105,610,615	Water/Water Distribution	254,346,098	123,789,562	130,556,536
105,293,709	89,890,440	15,403,269	Electricity /Electricity Distribution	118,740,772	97,251,555	21,489,217
596,683,985	499,143,289	97,540,696		657,138,274	603,529,211	53,609,063
Other charges						
596,683,985	499,143,289	97,540,696	Municipality	657,138,274	603,529,211	53,609,063
596,683,985	499,143,289	97,540,696	Total	657,138,274	603,529,211	53,609,063

Actual versus Budget(Revenue and Expenditure) for the period ended 30 June 2014

	Current year 2014 Act. Bal.	Current year 2014 Bud. Amt	Current year 2014 Variance		Explanation of Significant Variances greater than 10% versus Budget
	Rand	Rand	Rand	Var	
Revenue					
Property rates	64,117,325	56,328,220	7,789,105	13.8	
Service charges	76,852,213	81,598,323	(4,746,110)	(5.8)	
Rental of facilities and equipment	3,620,909	3,780,093	(159,184)	(4.2)	
Interest earned - debtors	5,220,039	4,515,282	704,757	15.6	
Fines	2,690,234	550,000	2,140,234	389.1	
Agency Services	7,847,619	11,019,527	(3,171,908)	(28.8)	
Government grants & subsidies	483,860,819	540,470,877	(56,610,058)	(10.5)	
Licences and permits	19,295	24,200	(4,905)	(20.3)	
Recoveries	1,035,463	-	1,035,463	-	
Other income	10,079,979	6,760,009	3,319,970	49.1	
Interest earned - external	1,794,381	2,200,000	(405,619)	(18.4)	
	657,138,276	707,246,531	(50,108,255)	(7.1)	

Actual versus Budget(Revenue and Expenditure) for the period ended 30 June 2014

	Current year 2014 Act. Bal.	Current year 2014 Bud. Amt	Variance	Explanation of Significant Variances greater than 10% versus Budget
Expenses				
Personnel	(249,906,268)	(221,048,566)	(28,857,702)	13.1
Remuneration of councillors	(19,136,513)	(18,467,720)	(668,793)	3.6
Depreciation, amortisation and asset impairment	(49,578,324)	(60,981,913)	11,403,589	(18.7)
Amortisation	-	-	-	-
Impairments	-	-	-	-
Finance costs	(1,822,486)	(881,015)	(941,471)	106.9
Debt impairment	(4,800,584)	(16,141,260)	11,340,676	(70.3)
Bulk purchases	(58,159,340)	(66,232,960)	8,073,620	(12.2)
Contracted Services	(23,266,444)	(20,504,672)	(2,761,772)	13.5
General Expenses	(195,657,602)	(153,853,106)	(41,804,496)	27.2
	(602,327,561)	(558,111,212)	(44,216,349)	7.9
Loss on disposal of game	(1,201,647)	-	(1,201,647)	-
Net deficit for the year				
	53,609,068	149,135,319	(95,526,251)	(64.1)
Loss for the year				
	53,609,068	149,135,319	(95,526,251)	(64.1)

Nkomazi Local Municipality

Appendix E(2)

June 2014

Actual versus Budget (Acquisition of property, Plant and Equipment) as at 30 June 2014

	Additions	Original	Revised	Variance	Variance	Explanation of significant
	Rand	Budget	Budget	Rand	%	variances from budget
		Rand	Rand			
Municipality						
Executive & Council/Mayor and Council	24,242	593,000	-	89,190	-	
Budget & Treasury	175,103	212,000	212,000	36,897	17	
Corporate Services	910,905	2,710,000	2,710,000	701,515	26	
Planning & Development	333,651	350,000	350,000	16,349	5	
Community & Social Services	13,604,784	10,992,807	26,061,172	12,456,388	48	
Infrastructure Development	135,377,182	214,899,510	211,558,100	76,180,918	36	
	150,425,867	229,757,317	240,891,272	89,481,257	37	

Nkomazi Local Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

June 2014

Name of Grants	Quarterly Receipts					Quarterly Expenditure					Grants and Subsidies delayed / withheld				
EQS	76,000	41,000	05,000	-	290,822,000	-	-	-	-	-	-	-	-	-	-
MIG	77,000	-	44,000	-	131,421,000	-	-	-	-	-	-	-	-	-	-
RHIG	-	-	00,000	-	4,500,000	-	-	-	-	-	-	-	-	-	-
DSAC Library	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FMG	50,000	-	-	-	1,550,000	-	-	-	-	-	-	-	-	-	-
MIG PMU	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
MSIG	90,000	-	-	-	890,000	-	-	-	-	-	-	-	-	-	-
WSOG	-	47,000	46,000	-	8,493,000	-	-	-	-	-	-	-	-	-	-
INEG	00,000	00,000	-	-	20,000,000	-	-	-	-	-	-	-	-	-	-
EPWP	18,000	13,000	13,000	-	6,044,000	-	-	-	-	-	-	-	-	-	-
MWIG	75,000	-	04,000	-	19,879,000	-	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	86,000	01,000	12,000	-	483,599,000	-	-	-	-	-	-	-	-	-	-

Note : above amounts are in millions (R'000)